

5/19/10

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 GARY PIERCE  
 PAUL NEWMAN  
 SANDRA D. KENNEDY  
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ERNEST G. JOHNSON  
 EXECUTIVE DIRECTOR



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## ARIZONA CORPORATION COMMISSION

ORIGINAL

## MEMORANDUM

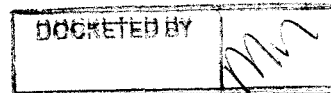
**TO:** Kristin K. Mayes, Chairman  
 Gary Pierce  
 Paul Newman  
 Sandra D. Kennedy  
 Bob Stump

Arizona Corporation Commission  
**DOCKETED**

**FROM:** Matthew J. Neubert   
 Director of Securities

APR 28 2010

**DATE:** April 26, 2010



**RE:** *In the matter of World Group Securities, Inc., et al.* (S-20735A-10-0130);  
 Proposed Order for Relief and Consent to Same

**CC:** Ernest G. Johnson, Executive Director

Attached is a proposed Order for Relief and Consent to Same by Respondents World Group Securities, Inc. ("WGS"), a Georgia-based national securities dealer registered in Arizona, and its former Arizona Officer of Supervisory Jurisdiction ("OSJ"), Terry E. Wengert. This matter involves supervisory deficiencies in connection with the unauthorized sale of private securities transactions ("selling away") by former Arizona salesmen of WGS, including two former Arizona branch office managers. The proposed Order requires WGS to (1) undertake remedial measures designed to ensure that its registered salesmen do not engage in unauthorized sales of unregistered securities; (2) pay restitution in the amount of \$828,501; and (3) pay administrative penalties in the amount of \$25,000. The proposed Order requires Respondent Wengert to pay administrative penalties in the amount of \$10,000.

In previous Orders, the Commission also ordered the three Arizona salesmen to cease and desist from further violations of the Arizona Securities Act, and to pay restitution and administrative penalties.

The Division supports this proposed Order as serving the public interest.

Originated by: Pam Johnson

MJN/ptj

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1                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2                   **COMMISSIONERS**

3                   KRISTIN K. MAYES, Chairman  
4                   GARY PIERCE  
5                   PAUL NEWMAN  
6                   SANDRA D. KENNEDY  
7                   BOB STUMP

8                   In the matter of

9                   WORLD GROUP SECURITIES, INC.,  
10                  CRD #114473  
11                  11315 Johns Creek Parkway  
12                  Duluth, GA 30097-1517

13                 TERRY E. WENGERT, CRD #2569257,  
14                 an individual,

15                 Respondents.

DOCKET NO. S-20735A-10-0130

DECISION NO. \_\_\_\_\_

**ORDER FOR RELIEF AND CONSENT TO  
SAME**

16                 Respondents World Group Securities, Inc. ("WGS") and Terry E. Wengert ("Wengert")  
17                 (collectively "Respondents") elect to permanently waive any right to a hearing and appeal under  
18                 Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801 *et seq.* ("Securities Act")  
19                 with respect to this Order For Relief and Consent to Same ("Order"). Respondents admit the  
20                 jurisdiction of the Arizona Corporation Commission ("Commission"); neither admit nor deny the  
21                 Findings of Fact and Conclusions of Law contained in this Order; and solely for the purpose of  
22                 these proceedings and any other proceedings brought by or on behalf of the Commission, consent to  
23                 the entry of this Order by the Commission.

24                   **I.**

25                   **FINDINGS OF FACT**

26                   **A.    Background**

1                   1. WGS has conducted business within or from Arizona as a registered securities dealer  
2                   since April 12, 2002, with several branch offices in Arizona.

3                   ...

1           2. Until June 23, 2009, Wengert was a WGS field supervisor, acting in the capacities of  
2 Branch Office Manager ("BOM") of a Mesa branch office, and Office of Supervisory Jurisdiction  
3 ("OSJ") Manager with supervisory responsibilities related to several other WGS BOMs in Tempe  
4 and Mesa, Arizona. Wengert is currently a registered securities salesman with WGS through an  
5 office located in Gilbert, Arizona.

6           3. WGS and Wengert may be referred to collectively as "Respondents."

7           4. WGS is the affiliate broker-dealer of World Financial Group, Inc. ("WFG"), a financial  
8 services marketing company based in Duluth, Georgia.

9           5. WFG recruits agents who, upon obtaining the necessary licenses, registrations, and other  
10 requirements, can sell certain approved financial services products.

11           6. Some of WFG's agents also become registered as securities salespersons under WGS's  
12 securities dealer registration. Upon obtaining the necessary securities registrations, licenses, and  
13 other requirements, these salespersons are permitted to sell certain approved securities products  
14 sold by WGS, including, for example, variable universal life insurance, variable annuities, mutual  
15 funds, and money market funds.

16           7. WFG's marketing philosophy is, among other things, to recruit new agents to help  
17 families secure their well-being and future retirement. WFG offices hold recruiting meetings to  
18 discuss opportunities available through WFG.

19           8. Compensation for approved securities and non-securities products is commission-based  
20 and paid through WFG, which provides payment services for WGS.

21           9. WGS operates in a highly regulated industry. WGS's supervisory and compliance  
22 duties in Arizona are effectuated through a Regional Office of Supervisory Jurisdiction ("ROSJ")  
23 Manager, OSJ Manager, Regional Compliance Manager ("RCM"), BOM, Branch Office Supervisor  
24 ("BOS"), and Field Compliance Auditors, and supported by the Supervisory and Compliance  
25 departments in Duluth, Georgia, which provide supervisory and compliance efforts and support for  
26

1 Arizona and other regions of the country through, for example, field auditors and surveillance  
2 personnel.

3 **B. Aspects of WGS's Supervisory and Compliance Structure and the Prohibition on**  
4 **Unauthorized Private Securities Transactions**

5 10. WGS has a department based in Duluth, Georgia that is dedicated to implementing  
6 policies and procedures consistent with state and federal securities laws and Financial Industry  
7 Regulatory Authority ("FINRA") industry rules and standards designed to protect investors and  
8 promote market integrity.

9 11. FINRA requires dealers to maintain written supervisory policies and procedures. WGS's  
10 Written Supervisory Procedures Manual is and was available on-line for all salespersons and  
11 supervisors.

12 12. WGS uses field supervisors, including, for example, OSJ Managers and BOMs, to assist  
13 in WGS's supervisory and compliance requirements.

14 13. This matter involves certain supervisory deficiencies relating to unauthorized private  
15 securities transactions—prohibited conduct in the securities industry generally known as "selling  
16 away," which includes any unauthorized participation in the promotion, offer, or sale of any  
17 securities products that are not approved products of the dealer.

18 14. Under the Securities Act, selling away is dishonest and unethical conduct by registered  
19 securities salespersons and is defined as "effecting securities transactions that are not recorded on  
20 the records of the dealer with whom such salesman is registered at the time of the transaction."

21 **C. WGS Arizona Salesmen's Unauthorized Private Securities Transactions**

22 15. In 2008, WGS brought to the attention of the Securities Division ("Division") selling  
23 away by three WGS registered securities salesmen: two BOMs who were under Wengert's OSJ  
24 supervisory responsibility and one field representative. Both the Division and WGS conducted  
25 investigations concerning these salesmen and their unauthorized activities. As a result of WGS's  
26 investigations, which were launched as soon as the activities were discovered, WGS promptly

1 terminated two of the salesmen, and the remaining salesman resigned during WGS's investigation.  
2 The Division's investigation resulted in the Commission's revocation of the three salesmen's  
3 securities registrations, as well as restitution orders against them totaling approximately \$3.5  
4 million resulting from their unauthorized and fraudulent private securities transactions involving  
5 unregistered securities. The Orders entered against these WGS salesmen are summarized below.

6 **1. Kleese Order**

7 16. On February 23, 2009, in Decision No. 70752, the Commission entered an Order to  
8 Cease and Desist, for Restitution, of Revocation, and for Administrative Penalties and Consent to  
9 Same ("Kleese Order") against Brett S. Kleese ("Kleese") and BSK Enterprises, LLC ("BSK"),  
10 Kleese's Arizona limited liability company (collectively "Kleese Respondents"). Kleese was a  
11 BOM under Wengert's OSJ supervision, operating out of the Mesa office with Wengert.

12 17. According to the Kleese Order, from about October 2007 to May 2008, Kleese  
13 Respondents offered and sold, without authorization, \$2,980,000 of unregistered securities in the  
14 form of promissory notes issued by BSK, titled BSK Private Loan Agreements, to 57 investors,  
15 some of whom were also WGS customers or salespersons, or WFG agents. The money was  
16 deposited in a BSK bank account before it was wired to Chicago, Illinois, where it was to be used  
17 as collateral in obtaining a line of credit to pay for the purported construction of prefabricated, low-  
18 cost housing. WGS's and the Division's investigations both revealed that the investors' funds were  
19 not used as collateral and that the investment was misrepresented to investors. According to the  
20 Kleese Order, the investments associated with BSK were not authorized investment products of  
21 WGS, Kleese was not authorized by WGS to sell them, and Kleese did not adequately disclose any  
22 of this to the investors.

23 18. The Order required Kleese Respondents to pay restitution in the amount of \$2,439,225  
24 and to pay administrative penalties in the amount of \$100,000. The Commission's Order also  
25 revoked Kleese's securities registration in Arizona for violations that included effecting securities  
26 transactions that were not recorded on the books and records of the dealer, WGS, with whom  
Kleese was registered at the time of the unauthorized transactions, i.e., selling away.

1 19. The firm first learned of Kleese's selling away conduct when Wengert discovered a copy  
2 of a bank wire for a transaction that was faxed to the office that he shared with Kleese, and that  
3 appeared to involve Kleese. Wengert promptly forwarded the fax to the firm, and WGS  
4 immediately commenced an investigation.

5 **2. Blackwell Order**

6 20. On October 21, 2009, in Decision No. 71302, the Commission entered a default Order to  
7 Cease and Desist, for Restitution, of Revocation, and for Administrative Penalties ("Blackwell  
8 Order") against Thomas S. Blackwell ("Blackwell") and his Arizona limited liability company,  
9 Team Heat LLC ("Team Heat") (collectively "Blackwell Respondents"). Blackwell was a WFG  
10 Qualified Marketing Director, who worked with approximately 25 agents in a WGS Tempe branch  
11 office. Blackwell was supervised by BOM Dustin J. Lunt ("Lunt"), who was under the supervision  
12 of OSJ Wengert.

13 21. According to the Blackwell Order, from around August 2007 to January 2008,  
14 Blackwell Respondents, without authorization, solicited \$1,429,000 from 11 investors who  
15 purchased unregistered securities in the form of investment contracts called Rate of Return  
16 Agreements, issued by Team Heat. Blackwell Respondents repaid investors amounts totaling  
17 \$683,365. The Commission's Order required Blackwell Respondents to pay restitution in the  
18 amount of \$947,931 and to pay administrative penalties in the amount of \$100,000. The Order also  
19 revoked Blackwell's securities registration in Arizona. According to the Blackwell Order, the Rate  
20 of Return Agreements were not authorized investment products of WGS, and Blackwell was not  
21 authorized by WGS to sell them.

22 22. Blackwell conducted selling away activity using his Team Heat bank account for  
23 investor funds. According to the Blackwell Order, Blackwell Respondents spent \$122,466 of the  
24 investors' money on personal and business expenses, including \$5,400 in automobile lease  
25 payments.

26 23. In addition, on October 21, 2009, in Docket No. 71303, the Commission entered a  
default Order against Blackwell Respondents for restitution in the amount of \$3,150,744.

1           **3. Lunt Order**

2           24. On July 16, 2009, in Decision No. 71215, the Commission entered an Order to Cease  
3 and Desist, for Restitution, of Revocation, and for Administrative Penalties and Consent to Same  
4 (“Lunt Order”) against Lunt and his Arizona limited liability company, DJL & Associates, LLC  
5 (“DJL”) (collectively “Lunt Respondents”). Lunt was operating under the supervision of  
6 Respondent Wengert.

7           25. According to the Lunt Order, from about October 2007 to November 2007, Lunt  
8 Respondents, without authorization, offered and sold to four investors \$70,000 of unregistered  
9 securities in the form of investment contracts issued by DJL with the title Rate of Return Contract.  
10 Lunt Respondents repaid amounts totaling \$50,000 to these investors. The Commission’s Order  
11 required Lunt Respondents to pay restitution in the principal amount of \$20,000 and to pay  
12 administrative penalties in the amount of \$20,000, plus interest. This amount included investments  
13 made by Blackwell investors that Lunt lost in unauthorized foreign currency trading. The Order  
14 also revoked Lunt’s securities salesman registration in Arizona. According to the Lunt Order, the  
15 Rate of Return Contracts were not authorized investment products of WGS, and Lunt was not  
16 authorized by WGS to sell them.

17       **D. Failure to Have Adequate Training Related to Unauthorized Private Securities**  
18       **Transactions (Selling Away)**

19           26. The securities industry prohibition against selling away is designed to protect investors,  
20 securities firms, and market integrity.

21           27. WGS BOMs and OSJ Managers are field supervisors responsible for supervising all  
22 registered securities salespersons assigned to their supervision. The field supervisors evidence the  
23 fulfillment of certain supervisory obligations and duties in a number of ways, including through the  
24 completion, collection, review, and analysis of, among others, annual questionnaires and outside  
business activity disclosure forms.

25           28. Field supervisors are required to, among other things, monitor changes in outside  
26 business activities and review, analyze, and facilitate updates to Form U4 filings with FINRA to

1 record any changes in the outside business activities of the securities registered salespersons  
2 assigned to them.

3 29. While WGS has provided, and continues to provide, training on outside business  
4 activities and private securities transactions, including a training course titled Selling Away/OBA,  
5 in light of the cases of Blackwell, Lunt, and Kleese, WGS should have provided its field  
6 supervisors and salespersons additional training in the detection and prevention of prohibited selling  
7 away conduct.

8 30. Wengert claimed that he did not adequately understand the nature and scope of the  
9 prohibited conduct or his reporting obligations thereunder. Kleese told Wengert about his trip to  
10 Chicago, Illinois, to review a potential outside investment in real estate. After Kleese returned from  
11 that trip, Wengert confronted Kleese and received verbal assurances from Kleese that Kleese did  
12 not intend to—and could not—get involved. Although Wengert did not conduct an investigation or  
13 immediately report the activity underlying these discussions up his supervisory chain to WGS until  
14 Wengert discovered the faxed copy of the bank wire, Wengert did follow up with Kleese on at least  
15 two occasions to ensure that Kleese was not involved, and Kleese denied that he was involved each  
16 time. WGS should have been notified of this activity by January 1, 2008, but the firm was first  
17 given notice on May 13, 2008. During this time period, 20 investors had invested \$614,000 and  
18 sustained losses of \$564,669.

19 31. WGS first discovered Blackwell's and Lunt's misconduct when the Securities and  
20 Exchange Commission ("SEC") reported to the dealer an investigation relating to the salesmen's  
21 unauthorized selling away on January 31, 2008. After January 31, 2008, and before WGS  
22 terminated Blackwell on February 12, 2008, three individuals invested approximately \$255,000  
23 with Blackwell's unapproved and unregistered securities, for which they lost principal in the  
24 amount of approximately \$243,832. Lunt had one investor who lost principal in the amount of  
\$20,000 as a result of Lunt's unauthorized selling away.

25 32. Despite WGS's Firm Element Continuing Education training on outside business  
26 activities and unauthorized private securities transactions, Kleese's attendance at and completion of



1 Annual Compliance Meetings and Annual Compliance Checklists that covered these same topics,  
2 and WGS's issuance of no fewer than 22 Supervisory Alerts from 2007 through 2009 relating to  
3 field representatives' responsibilities regarding outside business activities or private securities  
4 transactions, Kleese claimed that he did not know that he was violating rules of his firm in failing to  
5 report or to request authorization from WGS to engage in his private securities transactions through  
6 BSK until 2008, after the Blackwell-Lunt activities were discovered and WGS conducted a special  
7 training session on private securities transactions. Even at that time, however, Kleese continued to  
8 deny his involvement in private securities transactions and to conceal his activities from WGS and  
9 Wengert.

10 33. During the course of the Division's investigation, Lunt also claimed confusion  
11 concerning his obligations to report to the firm Blackwell's investment activities conducted through  
12 an LLC because the activities involved investments made by an LLC, not personally. Although  
13 investments made by LLCs are encompassed within the broad definition of "participating" set forth  
14 in the prohibition on unauthorized private securities transactions contained in WGS's Written  
15 Supervisory Procedures Manual, Lunt claimed that he did not consider this prohibited conduct in  
16 the nature of selling away from the firm and thus failed to advise anyone up the supervisory chain at  
17 WGS, including Wengert, of Blackwell's or his own misconduct. WGS's written procedures  
18 regarding selling away presented the prohibited conduct with other types of conduct that required  
19 prior approval, such as a salesperson's personal investment activities outside the firm, and could  
20 have demarcated the prohibited conduct with enhanced clarity. However, on his Annual  
21 Compliance Checklist for 2007 and 2008, Lunt acknowledged that he understood his obligations to  
22 report private securities transactions prior to engaging in the activity, understood various types of  
23 activities that could result in selling away, and understood the need to obtain prior written approval  
24 before engaging in any outside business activities.

25 34. Lunt and Blackwell had a familial relationship. Also, Blackwell was an upline to Lunt  
26 in the WFG marketing organization. WGS sought to address these issues in a coordinated fashion  
by, among other things, requiring successful completion of an interview with Lunt's ROSJ Manager

1 and branch office visits and meetings by the ROSJ Manager, RCM, and others; however, in light of  
2 the cases of Lunt and Blackwell, additional training should have been provided in the detection and  
3 prevention of prohibited selling away conduct.

4 35. Lunt had been in the securities business for one year when he passed the registered  
5 principal exam and successfully completed the ROSJ Manager interview, and assumed the duties of  
6 a BOS for a required six-month period before he could become BOM for Blackwell's team. During  
7 the six-month period that he was acting as BOS, Wengert supervised Lunt and provided informal  
8 training. During that period, Lunt claimed that he learned WGS policies and procedures solely  
9 through self-study, and that Wengert did not conduct any face-to-face compliance interviews or  
10 formal training sessions with him. However, Lunt also admitted that he was interviewed by and  
11 received training from others, such as the ROSJ Manager.

12 36. Lunt claimed that he did not conduct certain required interviews, including a quarterly  
13 interview of Blackwell, although Quarterly Interview Worksheets signed by Lunt show otherwise.  
14 Wengert stated that he completed the required interviews of Lunt and Kleese but was unable to  
15 locate certain interview documentation. WGS nonetheless disciplined Wengert for failing to file  
16 certain annual questionnaires from supervisory interviews with WGS Compliance. In December  
17 2008, WGS issued a letter of caution and fined Wengert for failing to conduct or complete  
18 interview questionnaires for certain BOMs under his supervision, including Kleese and Lunt.  
19 Wengert voluntarily withdrew from supervision and he no longer holds the supervisory positions of  
20 BOM or OSJ Manager for WGS.

21 **E. WGS's Remedial Efforts Undertaken**

22 37. To date, WGS has revised its supervisory policies and procedures manual and  
23 implemented a number of additional steps to prevent or detect unauthorized outside business  
24 activity ("OBA") and unapproved private securities transactions ("PST"), including, but not limited  
25 to, the following:

26 a) ***Private Securities Transaction Disclosure Form:*** On January 7, 2008, WGS issued  
a Supervisory Bulletin that announced the enhanced reporting obligations for field representatives

1 wishing to purchase or sell PSTs for their own account. This bulletin introduced a new PST  
2 Disclosure Form that requires substantially more information from the field representative. The  
3 bulletin further clarified the procedures to be followed by a field representative and also required  
4 that all PST disclosures be reviewed, and either approved or denied, by the ROSJ Manager.

5       b) ***Training — Alerts and Bulletins:*** In 2002, WGS issued Compliance Bulletins that  
6 defined OBAs and PSTs and explained the proper use of the OBA Disclosure Form. From 2002  
7 through the present, WGS has issued numerous Supervisory Alerts addressing field representatives'  
8 responsibilities with respect to OBAs and PSTs. In a Supervisory Bulletin dated January 7, 2008,  
9 WGS announced the publication of a PST disclosure form and the changes in procedures for its  
10 completion and submission to WGS. In a Supervisory Alert dated September 25, 2009, WGS  
11 reminded field representatives of WGS policies regarding PST disclosure.

12       c) ***Training — Programs Focused on Selling Away:*** Within just a few days of WGS  
13 first learning about Blackwell's and Lunt's selling away cases, WGS embarked upon a face-to-face  
14 training campaign in its Arizona branch offices. Field representatives were provided this training  
15 by qualified Home Office employees. At the conclusion of these face-to-face trainings, the field  
16 representatives were required to certify, as evidenced by their signatures, that they understood what  
17 was discussed during the selling away training and that they were not involved in any unapproved  
18 OBAs or PSTs.

19       To augment the face-to-face training campaign, WGS implemented a mandatory selling  
20 away training course (Compliance Bulletin dated July 18, 2008) in a further effort to highlight to its  
21 field representatives the importance of this issue. The selling away training course was titled  
22 Selling Away/OBA. This training was first introduced to field representatives who resided in  
23 Arizona, were supervised in Arizona branch offices, or held a resident or non-resident Arizona  
24 securities registration in Arizona.

25       d) ***Internal Review — Arizona Field Supervisors' OBAs:*** On June 11, 2008, WGS  
26 initiated an internal review that specifically focused on all Arizona field supervisors who had  
established bank accounts in the names of their approved OBAs. It is not uncommon for field

1 supervisors to establish bank accounts in the names of their OBAs in order to manage the expenses  
2 of operating their offices. This internal review concentrated on an entire 12-month period and was  
3 in-depth and broad-ranging, as evidenced by its closing date, April 1, 2009. WGS conducted a  
4 thorough review of bank account statements focusing on large deposits or large withdrawals, and, at  
5 times, obtaining copies of cancelled checks or deposits made by the field supervisor in the account  
6 to determine their purpose. WGS's internal review did not identify any selling away activities on  
7 the part of Arizona field supervisors.

8 **e) *Enhanced Supervision — Monitoring of Field Representative Income and***  
9 ***Production:*** WGS issued a Compliance Bulletin dated October 8, 2008, which empowered its  
10 Field Audit Department and compliance personnel to review the personal bank statements of its  
11 field representatives. In 2009, WGS refined and enhanced this control by requiring Field  
12 Compliance Auditors to request personal bank statements for 10 percent of the branch audits they  
13 perform. At least one field representative will be selected for review of personal bank statements in  
14 10 percent of the branch audits. This control measure is targeted on a risk-based basis at field  
15 representatives who may have had a significant reduction in their income or production, field  
16 representatives who may have "doing-business-as" OBAs, and field representatives whose OBAs  
17 are more of a particular interest to WGS. The criteria used to target this control measure are factors  
18 that WGS believes to be indicia that signal an increased risk of unapproved OBA or PST activity.

19 **f) *Heightened Supervision:*** On May 27, 2008, WGS established an enhanced  
20 supervisory procedure for field supervisors that requires the field supervisors to undertake  
21 heightened responsibilities involved in supervising a family member or business upline. Whenever  
22 a field supervisor is supervising a business upline or family member, WGS requires the field  
23 supervisor to acknowledge and certify the existence of the relationship and his or her understanding  
24 of the risks, liabilities, duties, and responsibilities that pertain to the supervision. Heightened  
25 supervision involving such relationships has also been implemented for the ROSJ Manager,  
26 including enhanced procedures for monitoring and reviewing transactions, and participating in  
compliance audits and supervisory interviews.

1           g) *Semi-Annual Interviews*: On January 8, 2009, WGS issued a Supervisory Bulletin  
2 that implemented refinements in the procedures pertaining to interviews of field representatives.  
3 The changes included a reduction in the number of interviews from quarterly to semi-annually, but  
4 the scope and depth of information gathered and documented for each interview were greatly  
5 enhanced. The interview documentation process is divided into three sections: pre-interview data  
6 collection, group meeting, and personal interview. Field supervisors are also required to document  
7 pre-interview preparation data that is designed to identify red flags.

8           h) *WGS Newsletter — WGSspotlight*: In the third quarter of 2008, WGS provided  
9 another training opportunity to its field representatives by focusing on selling away in the firm's  
10 quarterly newsletter, *WGSspotlight*.

#### 11                           REMEDIAL MEASURES ORDERED

12           38. WGS agrees to initiate or implement the remedial measures delineated below within six  
13 months of the date of this Order, addressing changes to its supervisory and compliance procedures  
14 and controls to reduce as much as reasonably and practically possible the potential that non-  
15 compliant activity will occur:

16           a) Continue to provide enhanced training related to supervisory detection and  
17 prevention of prohibited private securities transactions to all Arizona field supervisors on a regular  
18 basis for three years from the date of this Order.

19           b) Beginning with the 2010 audit year, conduct unannounced branch office audits of all  
20 Arizona locations for three years from the date of this Order.

21           c) Revise the section of the existing policies and procedures manual regarding  
22 prohibited conduct involving private securities transactions to enhance the clarity of the prohibition  
23 on participating in any manner in unauthorized conduct involving the promotion or sale of  
24 investment products that are not recorded on the books and records of WGS and to emphasize the  
25 importance that WGS places on this issue.

26           d) In addition to the existing policies, procedures, systems, and controls in place in the  
field and centrally at the WGS Home Office to address the issue of one family member supervising

1 another, where there is a familial relationship between a supervisor and a field representative in  
2 Arizona, the WGS Home Office shall implement the following measures: (1) obtain and review a  
3 credit report on the field representative twice a year (approximately June and December) to  
4 determine whether indicia of possible selling away are present; and (2) review the 12-month rolling  
5 cash flow of any such field representative twice a year (approximately June and December),  
6 including any commissions that the field representative has made and, if there is a decrease in the  
7 rolling cash flow of 25 percent or more from the prior 12 months, WGS Compliance shall conduct  
8 an internal review to determine if the field representative has engaged in any impermissible selling  
9 away activities. These additional safeguards shall remain in force for three years from the date of  
10 this Order.

## 11 II.

### 12 CONCLUSIONS OF LAW

13 1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona  
14 Constitution and the Securities Act.

15 2. WGS failed to adequately supervise its registered securities salesmen, pursuant to  
16 A.R.S. § 44-1961(A)(12), in that WGS should have provided WGS field supervisors and  
17 salespersons with additional training in the detection and prevention of prohibited selling away  
18 conduct.

19 3. Wengert failed to reasonably supervise WGS registered securities salesmen under his  
20 supervisory control, pursuant to A.R.S. § 44-1962(A)(11).

21 4. Kleese, Lunt, and Blackwell engaged in fraudulent acts or practices in connection with  
22 the unauthorized purchase or sale of unregistered securities within the meaning of A.R.S. §§ 44-  
23 1841 and 44-1991. Kleese, Lunt, and Blackwell engaged in dishonest or unethical practices in the  
24 securities industry within the meaning of A.A.C. R14-4-130.

25 5. WGS's conduct is grounds for an order of restitution pursuant to A.R.S. § 44-  
26 1961(B)(3).

...

3 7. Wengert's conduct is grounds for an order of administrative penalties under A.R.S. § 44-  
4 1962(B)(1).

## ORDER

7        THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and Respondents'  
8        consent to the entry of this Order, attached and incorporated by reference, the Commission finds  
9        that the following relief is appropriate, in the public interest, and necessary for the protection of  
10       investors:

IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-1961, that Respondent WGS shall pay restitution to the Commission in the principal amount of \$828,501. The restitution amount includes funds raised by Kleese from investors through the sale of unregistered securities not approved by WGS from January 1, 2008, through May 13, 2008; funds raised by Blackwell from investors through the sale of unregistered securities not approved by WGS after January 31, 2008, until Blackwell's termination from WGS on February 12, 2008; and funds raised by Lunt from an investor through the sale of an unregistered security not approved by WGS on or about October 11, 2007. The total amount of restitution does not include funds raised through the sale of securities not approved by WGS to registered securities salesmen of WGS, relatives of Respondents in the prior administrative Orders, persons who participated in the sale of the securities, or persons who invested before or after the relevant time periods for purposes of restitution pursuant to this Order. Payment is due in full on the date of this Order. Payment shall be made to the "State of Arizona" to be placed in an interest-bearing account controlled by the Commission.

25 The Commission shall disburse the funds on a pro-rata basis to investors shown on the  
26 records of the Commission. Any restitution funds that the Commission cannot disburse because an

1 investor refuses to accept such payment, or any restitution funds that cannot be disbursed to an  
2 investor because the investor is deceased and the Commission cannot reasonably identify and  
3 locate the deceased investor's spouse or natural children surviving at the time of the distribution,  
4 shall be disbursed on a pro-rata basis to the remaining investors shown on the records of the  
5 Commission. Any funds that the Commission determines it is unable to or cannot feasibly disburse  
6 shall be transferred to the general fund of the state of Arizona.

7 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-1961, that Respondent WGS shall  
8 pay an administrative penalty in the amount of \$50,000, to be reduced to \$25,000 if paid in full on  
9 the date of this Order. Payment shall be made to the "State of Arizona." Any amount outstanding  
10 shall accrue interest as allowed by law.

11 IT IS FURTHER ORDERED that payments received by the state of Arizona from WGS  
12 shall first be applied to the restitution obligation. Upon payment in full of the restitution obligation,  
13 payments shall be applied to the penalty obligation.

14 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-1962(B)(1), that Respondent  
15 Wengert shall pay an administrative penalty in the amount of \$10,000.00. Payment is due in full on  
16 the date of this Order. Payment shall be made to the "State of Arizona." Any amount outstanding  
17 shall accrue interest as allowed by law.

18 IT IS FURTHER ORDERED that WGS shall comply with the Remedial Measures set forth in  
19 this Order.

20 IT IS FURTHER ORDERED, that WGS shall provide to the Division within six months  
21 from the date of this Order a report summarizing the implementation status of all remedial measures  
22 ordered herein. Also, WGS shall submit a written report on a quarterly basis for a period of three  
23 years from the date of this Order summarizing all complaints of Arizona residents or complaints  
24 directed at branch offices in Arizona.

25 ...

26 ...



1 For purposes of this Order, a bankruptcy filing by any of the Respondents shall be an act of  
2 default. If any Respondent does not comply with this Order, any outstanding balance may be  
3 deemed in default and shall be immediately due and payable.

4 IT IS FURTHER ORDERED, that if any Respondent fails to comply with this order, the  
5 Commission may bring further legal proceedings against that Respondent, including application to  
6 the superior court for an order of contempt.

7 IT IS FURTHER ORDERED, that for any person or entity not a party to this Order, this  
8 Order does not limit or create any private rights or remedies against Respondents. Further, nothing in  
9 this Order shall affect Respondents' ability to defend themselves against claims in litigation.

10 IT IS FURTHER ORDERED, that no finding of fact or conclusion of law contained in this

11 ...

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Order shall be deemed binding against any Respondent under this Docket Number who has not consented to the entry of this Order.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT

DISSENT

This document is available in alternative formats by contacting Shaylin A. Bernal, ADA Coordinator, voice phone number 602-542-3931, e-mail [sabernal@azcc.gov](mailto:sabernal@azcc.gov).

(ptj)

**CONSENT TO ENTRY OF ORDER**

1  
2       1. Respondents World Group Securities, Inc. and Terry E. Wengert, an individual,  
3 (“Respondents”) admit the jurisdiction of the Commission over the subject matter of this  
4 proceeding. Respondents acknowledge that Respondents have been fully advised of Respondents’  
5 rights to a hearing to present evidence and call witnesses and Respondents knowingly and  
6 voluntarily waive any and all rights to a hearing before the Commission and all other rights  
7 otherwise available under Article 11 of the Securities Act and Title 14 of the Arizona  
8 Administrative Code. Respondents acknowledge that this Order for Relief and Consent to Same  
9 (“Order”) constitutes a valid final order of the Commission.

10       2. Respondents knowingly and voluntarily waive any right under Article 12 of the  
11 Securities Act to judicial review by any court by way of suit, appeal, or extraordinary relief  
12 resulting from the entry of this Order.

13       3. Respondents acknowledge and agree that this Order is entered into freely and voluntarily  
14 and that no promise was made or coercion used to induce such entry.

15       4. Respondent WGS acknowledges that Respondent WGS has been represented by an  
16 attorney in this matter, Barry R. Goldsmith, and Respondent WGS has reviewed this Order with  
17 him and understands all terms it contains.

18       5. Respondent Wengert acknowledges that Respondent Wengert has been represented by  
19 an attorney in this matter, Ed Barkel, and Respondent Wengert has reviewed this Order with him  
20 and understands all terms it contains.

21       6. Respondents neither admit nor deny the Findings of Fact and Conclusions of Law  
22 contained in this Order. Respondents agree that Respondents shall not contest the validity of the  
23 Findings of Fact and Conclusions of Law contained in this Order in any present or future  
24 administrative proceeding before the Commission or any other Arizona state agency concerning the  
25 denial or issuance of any license or registration required by the state to engage in the practice of any  
26 business or profession.

1           7. By consenting to the entry of this Order, Respondents agree not to take any action or to  
2 make, or permit to be made, any public statement denying, directly or indirectly, any Finding of  
3 Fact or Conclusion of Law in this Order or creating the impression that this Order is without factual  
4 basis. Nothing in this Order or Consent affects Respondents' (i) testimonial obligations, or (ii) right  
5 to take legal or factual positions in litigation or other legal proceedings in which the Commission is  
6 not a party. Respondents will undertake steps necessary to assure that all of Respondents' agents  
7 and employees understand and comply with this agreement.

8           8. While this Order settles this administrative matter between Respondents and the  
9 Commission, Respondents understand that this Order does not preclude the Commission from  
10 instituting other administrative or civil proceedings based on violations that are not addressed by  
11 this Order.

12           9. Respondents understand that this Order does not preclude the Commission from  
13 referring this matter to any governmental agency for administrative, civil, or criminal proceedings  
14 that may be related to the matters addressed by this Order.

15           10. Respondents understand that this Order does not preclude any other agency or officer of  
16 the state of Arizona or its subdivisions from instituting administrative, civil, or criminal  
17 proceedings that may be related to matters addressed by this Order.

18           11. Respondents consent to the entry of this Order and agree to be fully bound by its terms  
19 and conditions.

20           12. Respondents acknowledge and understand that if Respondents fail to comply with the  
21 provisions of the order and this consent, the Commission may bring further legal proceedings  
22 against Respondents, including application to the superior court for an order of contempt.

23           13. Respondents understand that default shall render Respondents liable to the Commission  
24 for its costs of collection and interest at the maximum legal rate.

25           14. Respondents agree and understand that if Respondents fail to make any payment as  
26 required in the Order, any outstanding balance shall be in default and shall be immediately due and

1 payable without notice or demand. Respondents agree and understand that acceptance of any  
2 partial or late payment by the Commission is not a waiver of default by the Commission.

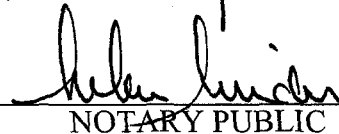
3 15. Kevin Palmer represents that he is President of World Group Securities, Inc. and has  
4 been authorized by World Group Securities, Inc. to enter into this Order for and on behalf of it.

5 

6 Respondent World Group Securities, Inc.  
7 By Its President

8 STATE OF ~~ARIZONA~~ <sup>Georgia</sup> )  
9 ) ss  
10 County of Hall )

11 SUBSCRIBED AND SWORN TO BEFORE me this 12<sup>th</sup> day of April, 2010.

12   
13 NOTARY PUBLIC

14 My commission expires:

15 Notary Public, Hall County, Georgia  
16 My Commission Expires June 25, 2010

17  
18 Respondent Terry E. Wengert

19 STATE OF ARIZONA )  
20 ) ss  
21 County of )

22 SUBSCRIBED AND SWORN TO BEFORE me this \_\_\_\_\_ day of \_\_\_\_\_, 2010.

23  
24 NOTARY PUBLIC

25 My commission expires:  
26 \_\_\_\_\_

1 payable without notice or demand. Respondents agree and understand that acceptance of any  
2 partial or late payment by the Commission is not a waiver of default by the Commission.

3 15. Kevin Palmer represents that he is President of World Group Securities, Inc. and has  
4 been authorized by World Group Securities, Inc. to enter into this Order for and on behalf of it.

5  
6  
7 Respondent World Group Securities, Inc.  
By Its President

8 STATE OF ARIZONA )  
9 ) ss  
10 County of )

11 SUBSCRIBED AND SWORN TO BEFORE me this \_\_\_\_ day of \_\_\_\_\_, 2010.

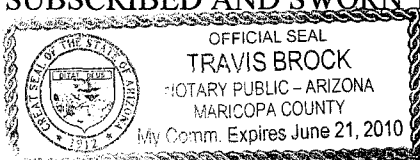
12  
13 NOTARY PUBLIC

14 My commission expires:  
15  
16

17  
18 Respondent Terry E. Wengert

19 STATE OF ARIZONA )  
20 ) ss  
21 County of )

22 SUBSCRIBED AND SWORN TO BEFORE me this 14 day of April, 2010.



25 NOTARY PUBLIC

26 My commission expires:  
6-21-2010

SERVICE LIST FOR RESPONDENTS:

Barry R. Goldsmith  
Gibson, Dunn & Crutcher LLP  
1050 Connecticut Avenue N.W.  
Washington, DC 20036-5306  
Respondent World Group Securities, Inc.

Ed Barkel  
Lewis and Roca LLP  
40 North Central Avenue, 19<sup>th</sup> Floor  
Phoenix, Arizona 85004-4429  
Respondent Terry E. Wengert